



Legislative Audit Division

State of Montana

Report to the Legislature

November 2005

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Fish, Wildlife and Parks

The report contains 13 recommendations relating to:

- **Federal Special Revenue Fund Misstatements**
- **Federal Financial Reporting**
- **Federal Cash Management**
- **Expenditure Controls**
- **Suspension and Debarment**
- **Cash on Hand**
- **Land Values**
- **Conservation Easements**
- **Deferred Revenue**
- **Off-Line Licenses**
- **Internal Service Fund Rates**
- **Disabled Hunters**

This report also contains one disclosure issue related to the department's overhead account fund classification.

**Direct comments/inquiries to:
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Room 160, State Capitol
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05-18

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report, which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
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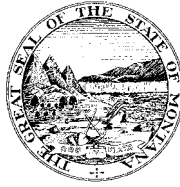
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November 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Montana Department of Fish, Wildlife and Parks for the two fiscal years ended June 30, 2005. Our report contains 13 recommendations related to various aspects of financial accountability including revenue and expenditure recognition, federal financial reporting, cash management, expenditures processing, suspension and debarment, accounting for cash received during fiscal year-end, capitalization of land and conservation easements, off-line licenses and internal service fund rates. There is one recommendation related to hunter disability determination. The report also discloses one issue, with no recommendation, concerning the fund classification of the department's overhead account. The department's written response to the audit recommendations is included in the back of the report.

We thank the director and his staff for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Fish, Wildlife and Parks

Members of the audit staff involved in this audit were Pearl M. Allen,
Jim Manning, Delsi Plummer, Sonia Powell, Vickie Rauser,
Jeff Tamblyn, and Lena Tamcke.

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Appointed and Administrative Officials

Montana Fish, Wildlife and Parks Commission			<u>Term Expires</u>
	Steve Doherty, Chairman	Great Falls	2009
	Tim Mulligan, Vice Chairman	Whitehall	2007
	Victor Workman	Whitefish	2009
	John Brenden	Scobey	2007
	Shane Colton	Billings	2009

Department Administrative Officials

M. Jeff Hagener, Director

Chris Smith, Chief of Staff

Larry Peterman, Chief of Field Operations

Sue Daly, Acting Chief of Administration and Finance Division

Ron Aasheim, Administrator, Conservation Education Division

Jim Kropp, Administrator, Enforcement Division

Glenn Erickson, Administrator, Field Services Division

Chris Hunter, Administrator, Fisheries Division

Doug Monger, Administrator, Parks Division

Don Childress, Administrator, Wildlife Division

For additional information concerning the Department of Fish,
Wildlife and Parks, contact Sue Daly, Acting Chief of
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Department of Fish, Wildlife and Parks

This audit report is the result of our financial-compliance audit of the Department of Fish, Wildlife and Parks for the two fiscal years ending June 30, 2005. We issued a qualified opinion on the financial schedules contained in this report. The reader should use caution in relying on the information presented in the financial schedules, as well as the supporting data on the state's accounting system.

This report contains 13 recommendations directed to the department. Twelve recommendations address various aspects of financial accountability, including revenue and expenditure recognition, federal financial reporting, cash management, expenditures processing, suspension and debarment, accounting for cash receipts during fiscal year-end, capitalization of land and conservation easements, off-line licenses, and internal service fund rates. The last recommendation relates to hunter disability determination.

This report also contains one disclosure issue related to the department's overhead account and its fund classification.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department:

- A. Analyze its federal special revenue fund accounts and resolve identified errors; and
- B. Implement policies and procedures to record federal revenue in accordance with state accounting policy..... 9

Department Response: Concur. See Page B-3.

Recommendation #2

We recommend the department improve its controls over the preparation of its annual Schedule of Expenditures of Federal Awards. 11

Department Response: Concur. See Page B-4.

Report Summary

<u>Recommendation #3</u>	We recommend the department implement controls over its federal financial reporting process.	12
	Department Response: Concur. See Page B-4.	
<u>Recommendation #4</u>	We recommend the department improve its controls over cash management to ensure compliance with the state's Treasury-State Agreement and other federal cash management regulations.	14
	Department Response: Concur. See Page B-4.	
<u>Recommendation #5</u>	We recommend the department implement procedures to ensure claims are paid according to contract terms.	15
	Department Response: Concur. See Page B-4.	
<u>Recommendation #6</u>	We recommend the department document its review for suspension and debarment when awarding contracts to be paid with federal funds.	16
	Department Response: Concur. See Page B-5.	
<u>Recommendation #7</u>	We recommend the department provide additional training to staff in use of accounting codes, and establish monitoring procedures to provide for prevention and early detection and correction of accounting errors.	17
	Department Response: Concur. See Page B-5.	
<u>Recommendation #8</u>	We recommend the department: A. Record land acquired through purchase and/or exchange at fair value; and B. Ensure land values reconcile between the land unit and asset management records.	18
	Department Response: Concur. See Page B-5.	

<u>Recommendation #9</u>	We recommend the department record the value of conservation easements in accordance with state accounting policy.....	20
	Department Response: Concur. See Page B-6.	
<u>Recommendation #10</u>	We recommend the department: A. Analyze the composition of its private contract, grants, and donation deferred revenue balance and properly classify it; and B. Account for private contracts, grants, donations, and federal restitution in accordance with state accounting policy.	21
	Department Response: Concur. See Page B-6.	
<u>Recommendation #11</u>	We recommend the department implement policies and procedures that will provide assurance the off-line licenses are properly safeguarded.	22
	Department Response: Concur. See Page B-6.	
<u>Recommendation #12</u>	We recommend the department evaluate its internal service fund operations and adjust rates accordingly to ensure fees are commensurate with costs as required by state law.	23
	Department Response: Concur. See Page B-7.	
<u>Recommendation #13</u>	We recommend the department adopt rules to establish a voluntary board or boards for addressing disability determination disputes as required by state law.	24
	Department Response: Concur. See Page B-7.	

Introduction

Introduction

We performed a financial-compliance audit of the Department of Fish, Wildlife and Parks (department) for the two fiscal years ended June 30, 2005. The objectives of the audit were to:

1. Determine if the department complied with applicable laws and regulations.
2. Make recommendations for improvement in the management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial schedules present fairly the results of the department's operations for each of the fiscal years ended June 30, 2005, and June 30, 2004, and if the department's Schedule of Expenditures of Federal Awards for each of these fiscal years was fairly presented in relation to the financial schedules.

As required by section 17-8-101(6), MCA, we reviewed Internal Service Fund type fees and fund equity balances at the department. The statute requires fees and charges for services, which are deposited into Internal Service Funds, be based upon commensurate costs. During the audit period, the Internal Service Funds at the department included the duplicating center, vehicle account, capitol grounds maintenance, and warehouse inventory. Based on our review, we determined the rates charged for the vehicle account were commensurate with costs for each of the fiscal years ending June 30, 2004, and 2005. Rates charged for the remaining three funds are not commensurate with costs and are discussed on page 22.

In accordance with section 5-13-307(2), MCA, we analyzed the costs of implementing the recommendations we made to the department and do not believe they are significant.

Background

The department's mission is to provide for the stewardship of the fish, wildlife, parks, and recreational resources of Montana while

Introduction

contributing to the quality of life for present and future generations.

The department's headquarters are located in Helena. The department maintains seven regional offices located in Kalispell, Missoula, Bozeman, Billings, Great Falls, Glasgow, and Miles City. There are also five area offices located in Libby, Havre, Lewistown, Butte, and Helena. A regional supervisor directs each region.

The five-member Fish, Wildlife and Parks Commission sets fish and wildlife regulations, approves property acquisitions, and approves certain rules and activities of the department as provided by statute. Commission members are appointed by the governor and confirmed by the senate. Statute requires representation from five geographical areas of the state.

The department is currently authorized 659.85 budgeted full-time equivalent positions, allocated to programs as noted below. The following paragraphs outline the department organization as reflected in program expenditures on the Schedules of Total Expenditures & Transfers-Out on pages A-9 and A-10.

Administration and Finance (73.32 FTE) – provides department-wide support for accounting, fiscal management, personnel, purchasing and property management services, federal aid administration, licensing of hunters and anglers, and information technology services.

Capital Outlay - accounts for major repair and maintenance of the department's properties, renovation and construction of facilities, and protection and enhancement of critical habitats.

Conservation Education (26.05 FTE) - is responsible for public relation functions of the department including film production and publication and distribution of the Montana Outdoors magazine. The division also informs the public about fish and

wildlife laws, administrative rules, and policies designed to regulate outdoor recreational activities.

Department Management (57.22 FTE) - is responsible for department direction regarding policy, planning, program development, guidelines and budgets, direct interaction with the Fish, Wildlife and Parks Commission, and decision-making authority for key resource activities affecting the department. This program includes the director's office and legal services for the department.

Enforcement (106.45 FTE) - is responsible for ensuring compliance with laws and regulations regarding fish, wildlife and parks through enforcement actions, education, and enhancing relations with landowners, recreational users and the general public.

Field Services (44.6 FTE) - is responsible for a wide array of support functions to the department and its field offices. These functions include game damage program administration, landowner/sportsman relations, block management, design and construction of department facilities, aerial surveys and department transportation, and the acquisition and disposal of real estate and real property.

Fisheries (146.02 FTE) - is responsible for preserving and perpetuating all aquatic species and their ecosystems, and for meeting public demand for fishing opportunities and aquatic wildlife stewardship.

Parks (102.76 FTE) - is responsible for conserving the scenic, historic, archaeological, scientific, and recreational resources of the state, and providing for their use and enjoyment.

Wildlife (103.43 FTE) - is responsible for the department's statewide wildlife management program, which enhances the use of Montana renewable wildlife resources for public benefit. The

Introduction

goals of the division are to protect, regulate, and perpetuate wildlife populations with habitat management and regulated harvest; maintain and enhance wildlife habitat; and provide wildlife recreational opportunities to the public.

User fees, such as hunting and fishing licenses and state park use fees, are the department's primary sources of funding. The department also receives federal funds to aid in fish and wildlife restoration efforts, for parks development and maintenance, for boating safety, education and regulation, and for other programs.

Prior Audit Recommendations

The prior financial-compliance audit of the department for fiscal year 2002-03 was released in September 2003 and contained four recommendations. The department implemented two recommendations and partially implemented two recommendations. The two recommendations partially implemented are discussed below.

Reporting Theft

Section 5-13-309(3), MCA, states: "The head of each state agency shall immediately notify both the attorney general and the legislative auditor in writing upon the discovery of any theft, actual or suspected, involving state moneys or property under his control or for which he is responsible." The previous audit recommended the department establish written policy for reporting theft in accordance with state law. In its response dated September 30, 2003, the department stated "FWP is in the process of preparing a theft policy and including it in the Department's policy manual." During the current audit, a department official stated the department has a draft policy but it has not yet been formally adopted. The draft policy was discussed at the management team meeting on August 25, 2005. The department has had almost two years to implement the prior audit recommendation but it has not formally adopted a policy as of August 2005. Because the department is in the process of adopting a theft policy, we make no further recommendation.

Cash Deposits

Section 17-6-105(6), MCA, states in part: "Except as otherwise provided by law, all money, credits, evidences of indebtedness,

and securities received by a state agency or institution must be deposited ...each day when the accumulated amount of coin and currency requiring deposit exceeds \$100 or total collections exceed \$500. All money, credits, evidences of indebtedness, and securities collected must be deposited at least weekly.” In each of the two previous audits we noted instances where the department was not in compliance with the deposit frequency requirements established in statute.

We reviewed deposit frequency during the current audit and noted the department has generally made improvements with the deposit requirements. However, we noted that one regional office completes deposits weekly, regardless of the amount of money received. The office manager stated deposits are made weekly because the office is five miles from the bank and daily deposits are inconvenient. We also noted deposit exceptions in two other regions, 15 exceptions in one and two exceptions in the other. In these regions, personnel indicated limited resources contributed to the delayed deposits.

The department does not have a formal written policy regarding the frequency of deposits. Department personnel indicated all office managers had been reminded of the law and the importance of deposits.

Under state law, the department is allowed to keep interest earned on its funds. Failure to promptly deposit funds results in lost interest to the department and increases risk of loss due to theft. The department should continue its efforts to ensure cash deposits are made as required by state law. Although we make no further recommendation at this time, the recommendation made in the prior audit is still applicable and is subject to review during the next audit.

Findings and Recommendations

Financial Accountability

The department's operations are funded primarily with state and federal special revenue monies. State special revenue sources include general hunting and fishing licenses, as well as a variety of other sources, including taxes and contracts with private parties. The department receives federal funding from the U.S. Departments of Interior, Agriculture, Energy, and Defense. Two of the federal programs, Sport Fish Restoration and Wildlife Restoration meet the criteria for designation as a major federal financial assistance program. As a major program, these grants are subject to expanded audit requirements under the Amendments to the Single Audit Act of 1996 and OMB Circular A-133. During the course of this audit, we identified several areas of concerns related to the department's financial accountability for its state and federal programs. The following report sections discuss our findings.

Federal Special Revenue Fund

The department misstated its federal special revenue fund during fiscal years 2003-04 and 2004-05.

We identified two issues related to the department's recognition of federal special revenue fund activity and balances. The issue discussed under Unrecorded Transactions impacted the Schedule of Expenditures of Federal Awards (page 9), and Federal Reporting (page 11).

Unrecorded Transactions

The department acquired a fee title for a piece of land from a private, non-profit organization during fiscal year 2004-05. The department recorded the initial cash outlay for this property as an expenditure in its state special revenue fund. Federal funds to assist with financing the acquisition were received in July 2005, during the fiscal year-end cut-off period for fiscal year 2004-05. Staff recorded the receipt as an expenditure abatement and cash on hand in the state special revenue fund. The expenditure abatement was appropriate, but using the cash on hand account was not, and the department did not properly recognize the interrelationship between its state and federal special revenue funds. As of June 30, 2005, the department's assets, liabilities, revenues, and expenditures were misstated as follows:

Findings and Recommendations

Fund	Account	Amount Over (Under) Stated
Federal Special Revenue	Revenues	\$(3,289,000)
	Expenditures	(3,289,000)
	Due From Federal Government	(3,289,000)
	Due to Other Funds	(3,289,000)
State Special Revenue	Cash on Hand	3,289,000
	Due from Other Funds	(3,289,000)

The department processed correcting transaction in September 2005. Department personnel indicate they have taken steps to provide additional guidance to staff when working with cash receipts during the fiscal year-end cut-off period.

Earned Revenues

The department's federal special revenue fund involves federal grant programs that operate on a cost reimbursement basis. Under state accounting policy, the department does not earn revenue on these programs until it incurs expenditures that are allowable in accordance with the individual grant agreements and federal regulations. Generally revenue should equal expenditures in these accounts and fund balance at June 30 each year should be zero. State accounting policy provides for some exceptions to the general rule, one of which is "A" accruals. An "A" accrual occurs when the department has a valid obligation against appropriation authority, but has not yet received the goods or services. These obligations, although recorded as expenditures and liabilities, do not result in earning federal revenue until the goods or services are received and cause recorded fund balance to be negative.

We analyzed the department's revenues, expenditures and fund balance for each year of the audit period and determined federal revenues are misstated, as are June 30, 2004, and June 30, 2005, fund balances. Our analysis indicates the following misstatements in the federal special revenue funds:

Findings and Recommendations

<u>Account</u>	Over (Under) Statement
Fund Balance, July 1, 2003	\$ 361,986
Federal Revenue, Fiscal Year 2003-04	1,307,221
Due from Federal Government, June 30, 2004	1,669,207
Fund Balance, June 30, 2004	1,669,207
Federal Revenue, Fiscal Year 2004-05	(67,541)
Due from Federal Government, June 30, 2005	1,601,666
Fund Balance, June 30, 2005	1,601,666

The Department of Administration issues a memorandum each fiscal year with instructions and guidance for achieving proper revenue recognition in federal special revenue fund accounts. The guidance includes preparing and analyzing trial balances during the fiscal year cut-off period to determine if additional accounting entries are needed. The department should analyze its federal special revenue funds to determine what corrections should be made. It should also implement policies and procedures to ensure proper federal revenue recognition in the future. These procedures could include additional training for staff and additional supervision and review during the year-end cut-off period.

Recommendation #1

We recommend the department:

- A. Analyze its federal special revenue fund accounts and resolve identified errors; and**
- B. Implement policies and procedures to record federal revenue in accordance with state accounting policy.**

Schedule of Expenditures of Federal Awards

The department did not submit accurate and complete SEFAs for fiscal years 2003-04, and 2004-05.

As a recipient of federal financial assistance the state of Montana is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) each fiscal year. To accomplish this, the Office of Budget and Program Planning (OBPP) requires each state agency to submit its SEFA. OBPP then combines the individual SEFAs to present a

Findings and Recommendations

statewide SEFA. OBPP also requires agencies to reconcile the amounts presented on their SEFAs to their accounting records. In addition to the expenditures, the SEFA includes other information such as the federal program name and Catalog of Federal Domestic Assistance (CFDA) number, and whether the money is direct from the federal government or subgranted through another entity.

The department reported approximately \$25.8 million and \$25.2 million of expenditures on its SEFAs for fiscal years 2003-04 and 2004-05, respectively. We reviewed these SEFAs and identified several types of errors:

- ▶ CFDA numbers reported did not agree to those on grant award documents.
- ▶ CFDA numbers reported had no support in grant award files.
- ▶ Expenditures reported were not supported by accounting records and other supporting schedules.
- ▶ Expenditures for one grant were not reported.

The fiscal year 2003-04 SEFA reported \$6.6 million as Cooperative Forestry Program expenditures. Of this amount, approximately \$2.1 million should have been reported under two other federal programs. The fiscal year 2004-05 SEFA did not report \$3.3 million of Forest Legacy Program expenditures due to the accounting error discussed previously. In addition to these errors, the fiscal year 2004-05 SEFA was not completely reconciled to the accounting records. This increases the risk that federal expenditures were not accurately reported.

One or more of the types of errors described above impacted approximately \$20.7 million of reported expenditures for fiscal year 2003-04 and \$9 million of reported expenditures for fiscal year 2004-05.

Findings and Recommendations

The number and type of errors we identified indicates the department's controls over the SEFA report should be improved. Controls should include maintaining documentation supporting the CFDA numbers and reported amounts; completely reconciling the SEFA to the accounting records; and performing a supervisory review prior to submitting the SEFA to OBPP.

Recommendation #2

We recommend the department improve its controls over the preparation of its annual Schedule of Expenditures of Federal Awards.

Federal Reporting

The department has not complied with federal reporting requirements.

The department is required by federal regulations to submit financial reports at the completion of each federally funded project to report total expenditures, both federal and state, as well as in-kind contributions. We reviewed eight reports submitted during fiscal years 2003-04 and 2004-05 and found errors in four of them. The types of errors we identified included misclassified activity and unsupported amounts. Errors ranged from a low of \$136 to a high of \$311,058.

Department personnel could not explain why amounts reported did not agree to amounts recorded on the accounting records for reporting purposes or provide support for classification decisions. Personnel responsible for preparing these reports believed the reports were reviewed by staff working with the federal programs. However, through various discussions with department staff, we determined the financial reports were not reviewed prior to their submission to the federal government.

We also reviewed a financial report submitted for a Forest Legacy Program grant. This report accurately reflected what should have been recorded on the department's accounting records, but, because the preparer did not verify the reported

Findings and Recommendations

activity with the accounting records, department personnel were unaware there was an error in the accounting records until we brought it to their attention.

The department should establish controls over the preparation and submission of federal financial reports. These controls should include requiring supporting documentation be filed with each financial report, supervisory review and approval of reports prior to submission, and clarifying responsibilities. These types of controls should help ensure the department complies with federal financial reporting requirements.

Recommendation #3

We recommend the department implement controls over its federal financial reporting process.

Cash Management

The department has not complied with federal cash management regulations.

Federal regulations, including the Cash Management Improvement Act of 1990 (CMIA), require entities receiving federal funds to minimize the time between the receipt and the disbursement of those funds. The requirements of CMIA are addressed by a Treasury-State Agreement (TSA) between the state and the U.S. Department of the Treasury. The TSA in effect during our audit period applied to the department's Sport Fish Restoration and Wildlife Restoration grants and details specific cash draw patterns by type of expenditure, e.g. administrative costs or direct project costs. The TSA specifies that as long as the state draws cash according to the agreed-upon clearance pattern(s), the state will not incur interest liabilities on the federal funds it holds. Federal programs not included in the TSA are subject to a general requirement that the time between receipt and disbursement of cash be minimal.

Findings and Recommendations

Cash Draw Errors

We reviewed 30 cash draws, 15 from each of the two fiscal years under audit, and found errors in 21. The types of errors included the following:

- ▶ Draws were for more cash than was required. The excess cash drawn totaled \$74,500.
- ▶ Draws were for less cash than was required. The deficiencies totaled \$209,600.
- ▶ Draws totaling \$495,000 were unsupported. Department personnel could not explain why these amounts were drawn.
- ▶ Twenty of the draws did not properly include administrative costs. Administrative costs were not drawn and should have been, were drawn and should not have been, and were drawn in incorrect amounts.

Commingled Draws

The department uses a single account to record the financial activity for the Sport Fish and Wildlife Restoration grants as well as other federal grants. The cash draws for this account are made based on an analysis of cash balances and expenditures in total. The cash is drawn against one of the two large grants regardless of which federal grants have actually incurred the expenditures. During fiscal year 2003-04, department personnel prepared monthly reconciliations to determine which grants had incurred expenditures and determine appropriate credits and charges to the cash draw accounts maintained by the U.S. Treasury. We found those reconciliations were not used to adjust to the cash draw accounts on a monthly basis and personnel informed us they have not reconciled fiscal year 2004-05 cash draws.

Personnel informed us that it is easier to draw money from the two large grants and then reconcile cash monthly because there isn't enough time to analyze each grant to determine how much cash is required on a daily basis. However, as discussed above, the reconciliations were not performed or used to correct cash draws, which resulted in the department misleading the federal government as to the use of the funds drawn.

Summary

The department should improve controls over cash management to ensure it draws funds in accordance with the TSA and other federal

Findings and Recommendations

regulations and to ensure funds are drawn from the federal grant awards corresponding to the projects incurring expenditures.

Recommendation #4

We recommend the department improve its controls over cash management to ensure compliance with the state's Treasury-State Agreement and other federal cash management regulations.

Expenditure Controls

The department does not have controls in place to ensure contractors are paid according to the terms of contracts.

The department has certain procedures employees are to follow for processing invoices for payment. These procedures include authorizing appropriate people to approve the invoices; issuing codebooks each year for employees' use in coding expenditures; and requiring accounts payable staff to review validity of the coding prior to recording the transactions on the accounting records. We reviewed 50 expenditure transactions processed during fiscal years 2003-04 and 2004-05 for evidence of the use of these control procedures and identified the following issue.

Three documents were payments to vendors under contract with the department where the invoices submitted violated the contract payment terms. In two cases, the vendor submitted invoices that did not correspond with the payment schedules contained in the contract. The third case involved an invoice submitted at a flat rate for services, but the contract directed payment on a "per item" basis.

Failure to compare vendor invoices to contracts or other governing documents increases the risk of erroneous or unsupported payments. The employees who approved two of the contract invoices for payment were unaware of the respective contract provisions and in one case each of two employees thought the other was comparing the invoice to the contract. The

Findings and Recommendations

employee responsible for approving the flat-rate invoice said the department had verbally negotiated the rates with the vendor and had forgotten to formally modify the contract.

We determined that two of the vendors received \$42,600 and \$266,764, respectively, during the audit period. The department paid the first vendor using both state and federal money. Of the payments made to the first vendor, we reviewed invoices totaling \$5,365. Approximately 75 percent of these payments was charged to the Wildlife Restoration grant. Because these payments were not made in accordance with the governing contract terms we question \$4,024 of the costs charged to the federal grant during the two years under audit and believe potential questioned costs exceed \$10,000. The department paid the second vendor using general licensing moneys and no federal funds were involved.

The department should ensure claims are paid according to contract terms. The department could provide additional training for employees charged with approving claims for payment and ensure approved contracts are available to those who approve claims.

Recommendation #5

We recommend the department implement procedures to ensure claims are paid according to contract terms.

Suspension and Debarment

The department does not document its review for suspended and debarred parties.

Federal regulations require that recipients of federal assistance not enter into contracts or other transactions with entities that are suspended or debarred from receiving federal funds. This regulation applies to transactions that are \$25,000 or more.

Findings and Recommendations

We reviewed the department's procedures for verifying its contractors are not suspended or debarred prior to paying them with federal funds. Although personnel stated they review the federal government's *Excluded Parties List System (EPLS)* prior to awarding a contract, there is no documentation of that review in contract files. Without this documentation, the department cannot be assured it is in compliance with suspension and debarment regulations. Alternatively, the department could require its contractors to certify they are not suspended or debarred; or, it could add an appropriate clause to its contracts. Both of these options are allowed under federal regulations.

We reviewed 18 contracts involving federal funding and did not identify any suspended or debarred entities receiving payment from federal funds.

Recommendation #6

We recommend the department document its review for suspension and debarment when awarding contracts to be paid with federal funds.

Cash on Hand

Department staff used the Cash on Hand account improperly during the fiscal year 2004-05 cut-off periods.

During the fiscal year-end cut-off period for fiscal year 2004-05, department staff processed cash receipts transactions using an improper cash account. The cash receipts were recorded as having been received on or before June 30, when they had actually been received after June 30. These errors overstated cash on hand by \$3,289,000 in the state special revenue fund (see page 7) and by \$664,538 in the federal special revenue fund. At June 30, 2005, these assets were actually receivables and should have been recorded as such.

Department personnel stated these errors occurred due to a misunderstanding by staff members as to the proper accounting treatment. These errors could have been identified through a

Findings and Recommendations

knowledgeable person's monitoring of the department's trial balances during the fiscal year-end cut-off period. Providing additional training to staff and establishing monitoring procedures would help prevent these errors from occurring and provide for early detection and correction if errors do occur.

Recommendation #7

We recommend the department provide additional training to staff in use of accounting codes, and establish monitoring procedures to provide for prevention and early detection and correction of accounting errors.

Land Values

Recorded land values are understated by \$11.3 million as of June 30, 2005.

The department acquires and exchanges properties as part of its role to maintain the long-term viability of Montana's natural, cultural, and recreational resources. Under state accounting policy, these acquisitions are recorded as expenditures when the purchase is made, then recorded as capital assets on the state's asset management system. State accounting policy requires capital assets be recorded at historical cost, which includes costs directly attributable to the asset acquisition, such as site preparation costs and professional fees, or fair value at the date of acquisition in the case of donated assets.

During our audit, we reviewed supporting documents for several land acquisitions during fiscal year 2004-05. We also compared information from the land unit's files and database to information on the asset management system and noted that amounts recorded on asset management did not include donated value included with some acquisitions. Other acquisitions, some of which were acquired through land exchanges with other agencies, were not recorded at their correct value. The land values recorded on the department's accounting records at June 30, 2005, were understated by approximately \$11.3 million.

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Of this amount, approximately \$6.3 million relates to acquisitions prior to July 1, 2004.

We also noted the land unit records and asset management records are not reconciled. The value recorded on the land unit database is \$56,379,768 as of June 30, 2005, and the value of land recorded on the accounting records is \$75,381,306 at that date. Part of this difference relates to appraisal and closing costs that are properly included in the land values recorded on asset management. There may be other errors or differences in property valuation that also contribute to the \$19 million difference. The department should reconcile its land unit records with its asset management records to identify and correct errors that may exist.

There are two departmental offices involved in the acquisition, disposal, and accounting for properties acquired – the land unit, which is in charge of the actual purchase, exchange, and sale of department properties, and the property management division, which records the information on the state’s asset management system, based on the data provided by the land unit. The department is in the process of establishing procedures, including accurate and complete exchange of information, to ensure land acquisitions are recorded at historical cost and fair value, as appropriate.

Recommendation #8

We recommend the department:

- A. Record land acquired through purchase and/or exchange at fair value; and**
- B. Ensure land values reconcile between the land unit and asset management records.**

Findings and Recommendations

Conservation Easements

Intangible assets are understated by \$62.5 million as of June 30, 2005.

The department purchases conservation easements as part of its mission to maintain the long-term viability of Montana's natural, cultural, and recreational resources. Conservation easements are voluntary legal agreements, customized for individual landowners, in which the department pays 40 to 45 percent of the property value to protect wildlife habitat in the face of population growth and suburban sprawl. In return for this payment, the landowner agrees to keep the land in traditional agricultural use, employ agricultural practices beneficial to wildlife, forgo all but limited development, and in most cases, allow public access for hunting.

The department currently has acquired approximately \$62,479,165 in conservation easements, either purchased by the department or donated by landowners, or other entities. The purchases of these easements have been recorded as expenditures, but the assets have not been capitalized on the accounting records.

Staff with the land unit explained that conservation easements are not capitalized on the accounting records because the department does not have title to the land. Despite the fact that the department does not hold title to the land when it purchases the easement, the transaction still conveys a legal interest in land that entitles the department to a specific, limited use of the land. These rights are held in perpetuity and qualify as intangible assets, which are defined in state accounting policy as a long-lived legal right. State accounting policy requires intangible assets meeting capitalization thresholds be recorded on the accounting records. Therefore, the department should capitalize the value of its conservation easements.

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Recommendation #9

We recommend the department record the value of conservation easements in accordance with state accounting policy.

Deferred Revenue

The department has inappropriately used its deferred revenue account.

The department maintains a state special revenue fund, as provided in state law, that is used to account for private grants and contracts, donations and contributions from private parties, and restitution payments received under federal court decree. As money is received, the department records it as deferred revenue and assigns a specific project number to it so personnel can monitor it. The deferred revenue balance in this fund at June 30, 2005, was \$980,890.

State accounting policy requires that revenue be deferred when the earnings process is incomplete. For example, grant and contract provisions generally require performance on the part of the department to complete the earnings process; and, donors may stipulate that a certain event must occur before the department can expend the donation, thus earning the related revenue. Once the department has complied with contract, grant, or donor restrictions, the earnings process is complete and the department should reduce the deferred revenue account and recognize current year revenue. If there are no restrictions associated with cash receipts, they should be recorded as current year revenue upon receipt.

We reviewed the composition of the deferred revenue balance in this fund and found that \$354,148 is associated with project numbers that were not active at June 30, 2005. As the project numbers are no longer active, there is reason to believe the department has met any stipulations made by the other parties to the contracts and grants and by donors. Therefore, the earnings

Findings and Recommendations

process is complete and the department should have recognized revenue.

The amount of the deferred revenue balance attributable to federal restitution is \$39,667. According to department personnel, the federal courts do not place any restrictions on restitution. As there are no restrictions placed on this money, it should be recognized as current year revenue, when received.

The department should complete an analysis of the deferred revenue balance to determine how much has actually been earned and process the needed correcting accounting entries. In addition, the department should modify its procedures in order to properly account for moneys received without restriction in the future.

Recommendation #10

We recommend the department:

- A. Analyze the composition of its private contract, grants, and donation deferred revenue balance and properly classify it; and**
- B. Account for private contracts, grants, donations, and federal restitution in accordance with state accounting policy.**

Off-Line Licenses

The department does not adequately safeguard off-line license stock.

The department's Automated Licensing System (ALS) accounts for the vast majority of hunting and conservation licenses issued each year. In the event ALS is temporarily unavailable, the department's license agents have off-line (manual) licenses they can issue. When ALS is again available, the agents are to enter the off-line licenses in the system. According to department records, a total of 30,750 off-line licenses were sold during fiscal years 2003-04 and 2004-05.

Findings and Recommendations

The license stock is distributed to the license agents in books and the licenses are sequentially numbered. At the end of the license year, the agents are required to return the unused licenses along with a report that shows which license numbers they are returning. The department does not currently have any policy or procedure in place to compare the license numbers that were distributed to each agent with the numbers that were issued and the numbers that were returned. As a result, the department does not have any assurance that the off-line licenses are properly safeguarded from theft or misuse. Failure to account for all licenses distributed to the license agents increases the risk of undetected errors, fraudulent license sales, or theft of license revenue.

Recommendation #11

We recommend the department implement policies and procedures that will provide assurance the off-line licenses are properly safeguarded.

Internal Service Fund Rates

Rates are excessive in three of four internal service funds.

The department operated four internal service funds used to account for the financing of goods and services provided to other divisions or operations within the department, or other state agencies during the audit period. These funds are intended to operate similarly to private business; the costs of goods or services are to be recovered from customers.

Section 17-8-101(6), MCA, states: "Fees and charges for services deposited in the internal service fund type must be based upon commensurate costs. The legislative auditor, during regularly scheduled audits of state agencies, shall audit and report on the reasonableness of internal service fund type fees and charges and on the fund equity balances."

Findings and Recommendations

We reviewed the four internal service funds operated by the department and noted three of the four funds had excessive rates based on an analysis of working capital for both fiscal years of the audit period.

Working capital is determined by calculating current assets less current liabilities and is the net current resources available to finance operations. As a general rule, the working capital balance of an internal service fund should not exceed the needs of a sixty-day period. Three of the four internal service funds had June 30 working capital in excess of 60 days:

Internal Service Fund	Working Capital Available	
	Fiscal Year 2003-04	Fiscal Year 2004-05
F&G Warehouse	878.2 days	713.4 days
Duplicating Center	181.7 days	181.3 days
Grounds Maintenance*	84.0 days	95.0 days

*This function was moved to the Department of Administration, effective July 1, 2005.

The department, when it evaluates its internal service fund rates, emphasizes projected cash balances. Projected cash balances are not an appropriate basis for determining rates because the cash balance can be easily manipulated. For example, purchasing supplies will reduce the cash, but not affect working capital. The department should revise its internal service fund rates to be commensurate with costs.

Recommendation #12

We recommend the department evaluate its internal service fund operations and adjust rates accordingly to ensure fees are commensurate with costs as required by state law.

Findings and Recommendations

Rules Not Adopted for Disability Determination Status to Hunt from a Vehicle

The department is not in compliance with state law concerning hunter disability determination.

The department promotes hunting for all Montana residents, including hunters with disabilities that limit their mobility in the field. Section 87-2-803, MCA, defines circumstances under which individuals qualify for permits to hunt from their vehicle. Some of these circumstances include dependency on oxygen devices; dependency on mobility devices; amputations above the wrist or ankle; or inability to walk, unassisted, 600 yards over rough and broken ground while carrying 15 pounds within one hour.

The statute directs the department to adopt rules to establish a voluntary board or boards of review to resolve any disputes over whether a person meets the established criteria to hunt from a vehicle. It also requires that, for each board established, at least one member be a Montana-licensed physician.

The department has not adopted required rules for establishing voluntary boards to address disability determination disputes. Department staff explained that the statutes were recently revised to broaden the criteria for qualifying to hunt from a vehicle and, as a result of this revision, more people are able to obtain the permit. Department staff believe it unlikely that determination disputes will occur.

Since there are no voluntary boards established under this statute, nor rules adopted for the establishment of the boards, there is currently no recourse for a person to appeal the disability determination decision.

Recommendation #13

We recommend the department adopt rules to establish a voluntary board or boards for addressing disability determination disputes as required by state law.

Overhead Account

In its administration of federally funded and state funded programs, the department incurs indirect costs. Indirect costs are those costs that benefit more than one program, e.g. accounting services and department management. The department applies indirect cost rates to direct costs for both state and federal programs. These indirect cost recoveries have been accounted for in a federal special revenue fund (the overhead account) since at least 1982.

Section 17-3-111(5), MCA, effective August 16, 2002, states, “...indirect costs recovered from federal sources pursuant to the statewide cost allocation plan provided in 17-3-110, except those costs recovered by a unit of the university system, must be deposited in the general fund. All other indirect costs, except those costs recovered by a unit of the university system, must be deposited in the fund from which the indirect costs were originally paid.”

Further, section 17-2-102, MCA, states, in part, “(1)...(b)...(i) The state special revenue fund consists of money and other proceeds from state and other nonfederal sources deposited in the state treasury that is earmarked for the purposes of defraying particular costs of an agency, program, or function of state government and money and other proceeds from other nonstate or nonfederal sources that is restricted by law or by the terms of an agreement, such as a contract, trust agreement, or donation.”

As noted above, the overhead account has been in existence since at least 1982. It was originally created as a Federal and Private Revenue fund, which predates the state’s current fund structure and the statutory requirement that accounting records be in accordance with generally accepted accounting principles. The fund placement was not reviewed after the passage of legislation in 2002 (section 17-3-111(5), MCA). The department’s primary source of revenue, excluding federal grants, is its general license money, which is accounted for in a state special revenue fund and is the initial source of funding for

Disclosure Issue

the costs that are included in the indirect cost rate. As of June 30, 2005, the fund balance in the overhead account was \$2,216,800. This fund balance exists because indirect cost recoveries have been recorded in this fund rather than the fund(s) from which indirect costs were originally paid.

Based on the above discussion we believe the department's overhead account is better classified within the state special revenue fund. The department should work with the Department of Administration and the Office of Budget and Program Planning to determine the appropriate fund placement for the overhead account.

This issue is presented for disclosure purposes only and we make no recommendation at this time.

Independent Auditor's Report & Department Financial Schedules

DEPARTMENT OF FISH, WILDLIFE & PARKS
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2004	\$ 6,681	\$ 64,409,653	\$ 3,209,843	\$ 107,369	\$ 6,927,358	\$ 150	\$ 27,663,257
PROPERTY HELD IN TRUST: July 1, 2004						\$ 3,407,177	
ADDITIONS							
Budgeted Revenues & Transfers-In	9,305	47,451,989	25,060,725	1,516	2,728,095		2,451,920
NonBudgeted Revenues & Transfers-In		3,812,343	11,700	87,984	158,990		3,855
Prior Year Revenues & Transfers-In Adjustments	(17,687)	299,435	441,463	1,813	1,492		(10,775)
Direct Entries to Fund Balance	9,089	4,266,072	(65,839)				466,108
Additions to Property Held in Trust						58,705,180	
Total Additions	<u>707</u>	<u>55,829,839</u>	<u>25,448,049</u>	<u>91,313</u>	<u>2,888,577</u>	<u>58,705,180</u>	<u>2,911,108</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out		46,529,488	25,420,670	63,072	2,999,446		
NonBudgeted Expenditures & Transfers-Out		4,009,729	254,269	(2,083)	82,993		1,617,889
Prior Year Expenditures & Transfers-Out Adjustments		120,980	(26,250)	1,115	(15,285)		
Reductions in Property Held in Trust						58,990,129	
Total Reductions		<u>50,660,197</u>	<u>25,648,689</u>	<u>62,104</u>	<u>3,067,154</u>	<u>58,990,129</u>	<u>1,617,889</u>
FUND BALANCE: June 30, 2005	\$ <u>7,388</u>	\$ <u>69,579,295</u>	\$ <u>3,009,203</u>	\$ <u>136,578</u>	\$ <u>6,748,781</u>	\$ <u>150</u>	\$ <u>28,956,476</u>
PROPERTY HELD IN TRUST: June 30, 2005						\$ <u>3,122,228</u>	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF FISH, WILDLIFE & PARKS
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2003	\$ 56,445	\$ 64,012,446	\$ 1,604,626	\$ 0	\$ 13,820	\$ 6,753,349	\$ 0	\$ 28,060,713
PROPERTY HELD IN TRUST: July 1, 2003							\$ 11,557,732	
ADDITIONS								
Budgeted Revenues & Transfers-In	22,781	42,282,510	27,353,448		360	2,731,868		868,397
NonBudgeted Revenues & Transfers-In		3,215,436	16,361		73,790	72,766		4,073
Prior Year Revenues & Transfers-In Adjustments		298,473	171,806		12,323			(24)
Direct Entries to Fund Balance	(72,545)	3,384,497	(14,139)	846	66,781		150	311,277
Additions to Property Held in Trust							53,212,750	
Total Additions	<u>(49,764)</u>	<u>49,180,916</u>	<u>27,527,476</u>	<u>846</u>	<u>153,254</u>	<u>2,804,634</u>	<u>53,212,900</u>	<u>1,183,723</u>
REDUCTIONS								
Budgeted Expenditures & Transfers-Out		45,154,757	25,667,470	846	60,219	2,854,122		
NonBudgeted Expenditures & Transfers-Out		3,637,048	173,963			(195,842)		1,581,179
Prior Year Expenditures & Transfers-Out Adjustments		(8,096)	80,826		(514)	(27,655)		
Reductions in Property Held in Trust							61,363,305	
Total Reductions		<u>48,783,709</u>	<u>25,922,259</u>	<u>846</u>	<u>59,705</u>	<u>2,630,625</u>	<u>61,363,305</u>	<u>1,581,179</u>
FUND BALANCE: June 30, 2004	\$ 6,681	\$ 64,409,653	\$ 3,209,843	\$ 0	\$ 107,369	\$ 6,927,358	\$ 150	\$ 27,663,257
PROPERTY HELD IN TRUST: June 30, 2004							\$ 3,407,177	

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Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF FISH, WILDLIFE & PARKS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Permanent Fund	TOTAL
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits		\$ 38,198,822				\$ 372,653	\$ 38,571,475
Taxes		3,903,209			\$ 8		3,903,217
Charges for Services		1,187,603	\$ 96,006		2,721,700		4,005,309
Investment Earnings		1,467,523		\$ 1,517		1,942,760	3,411,800
Fines, Forfeits and Settlements	\$ (8,382)	142,073					133,691
Sale of Documents, Merchandise and Property		433,741		89,796			523,537
Rentals, Leases and Royalties		53,750				129,587	183,337
Miscellaneous		222,764	4,536		7,887		235,187
Grants, Contracts, Donations and Abandonments		2,395,587					2,395,587
Other Financing Sources		3,537,591	11,700		158,982		3,708,273
Federal		21,104	22,867,006				22,888,110
Federal Indirect Cost Recoveries			2,534,640				2,534,640
Total Revenues & Transfers-In	(8,382)	51,563,767	25,513,888	91,313	2,888,577	2,445,000	82,494,163
Less: Nonbudgeted Revenues & Transfers-In		3,812,343	11,700	87,984	158,990	3,855	4,074,872
Prior Year Revenues & Transfers-In Adjustments	(17,687)	299,435	441,463	1,813	1,492	(10,775)	715,741
Actual Budgeted Revenues & Transfers-In	9,305	47,451,989	25,060,725	1,516	2,728,095	2,451,920	77,703,550
Estimated Revenues & Transfers-In	39,500	41,848,646	20,695,000	52,000	2,840,000		65,475,146
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (30,195)	\$ 5,603,343	\$ 4,365,725	\$ (50,484)	\$ (111,905)	\$ 2,451,920	\$ 12,228,404
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		\$ 1,047,706				\$ 380,153	\$ 1,427,859
Taxes		3,628,654					3,628,654
Charges for Services	\$ (35,000)	(213,281)	\$ 96,006		\$ (119,792)		(272,067)
Investment Earnings		460,387		\$ (50,484)		1,938,906	2,348,809
Fines, Forfeits and Settlements	4,805	141,691					146,496
Sale of Documents, Merchandise and Property		99,587					99,587
Rentals, Leases and Royalties		53,750				132,861	186,611
Miscellaneous		89,681	1,262		7,887		98,830
Grants, Contracts, Donations and Abandonments		161,525					161,525
Other Financing Sources		108,427					108,427
Federal		25,216	4,411,524				4,436,740
Federal Indirect Cost Recoveries			(143,067)				(143,067)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (30,195)	\$ 5,603,343	\$ 4,365,725	\$ (50,484)	\$ (111,905)	\$ 2,451,920	\$ 12,228,404

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF FISH, WILDLIFE & PARKS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits		\$ 36,665,262				\$ 370,589	\$ 37,035,851
Taxes		1,434,599	\$ 361		\$ 12		1,434,972
Charges for Services		1,719,019	88,597		2,731,868		4,539,484
Investment Earnings		528,306		\$ 360		385,956	914,622
Fines, Forfeits and Settlements	\$ 22,781	62,828					85,609
Sale of Documents, Merchandise and Property		302,055		86,113	7,036		395,204
Rentals, Leases and Royalties						115,901	115,901
Miscellaneous		206,457	4,193				210,650
Grants, Contracts, Donations and Abandonments		1,155,297	652				1,155,949
Other Financing Sources		3,721,915	16,000		65,718		3,803,633
Federal		681	24,525,982				24,526,663
Federal Indirect Cost Recoveries			2,905,830				2,905,830
Total Revenues & Transfers-In	22,781	45,796,419	27,541,615	86,473	2,804,634	872,446	77,124,368
Less: Nonbudgeted Revenues & Transfers-In		3,215,436	16,361	73,790	72,766	4,073	3,382,426
Prior Year Revenues & Transfers-In Adjustments		298,473	171,806	12,323		(24)	482,578
Actual Budgeted Revenues & Transfers-In	22,781	42,282,510	27,353,448	360	2,731,868	868,397	73,259,364
Estimated Revenues & Transfers-In	39,500	41,695,501	21,745,000	52,000	2,816,000		66,348,001
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (16,719)	\$ 587,009	\$ 5,608,448	\$ (51,640)	\$ (84,132)	\$ 868,397	\$ 6,911,363
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		\$ (186,249)				\$ 370,613	\$ 184,364
Taxes		1,429,109					1,429,109
Charges for Services	\$ (35,000)	53,129	\$ 87,308		\$ (84,132)		21,305
Investment Earnings		(529,421)		\$ (51,640)		381,883	(199,178)
Fines, Forfeits and Settlements	18,281	62,828					81,109
Sale of Documents, Merchandise and Property		(34,999)					(34,999)
Rentals, Leases and Royalties						115,901	115,901
Miscellaneous		(12,726)	4,193				(8,533)
Grants, Contracts, Donations and Abandonments		(237,472)					(237,472)
Other Financing Sources		42,129					42,129
Federal		681	5,374,076				5,374,757
Federal Indirect Cost Recoveries			142,871				142,871
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (16,719)	\$ 587,009	\$ 5,608,448	\$ (51,640)	\$ (84,132)	\$ 868,397	\$ 6,911,363

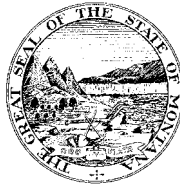
This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF FISH, WILDLIFE & PARKS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION & FINANCE DIVISION	CAPITAL OUTLAY	CONSERVATION EDUCATION DIVISION	DEPARTMENT MANAGEMENT	ENFORCEMENT DIVISION	FIELD SERVICES DIVISION	FISHERIES DIVISION	PARKS DIVISION	WILDLIFE DIVISION	TOTAL
Personal Services										
Salaries	\$ 2,233,899		\$ 983,020	\$ 2,656,654	\$ 4,124,799	\$ 1,508,896	\$ 5,714,998	\$ 3,309,964	\$ 4,266,762	\$ 24,798,992
Hourly Wages	(532)		200	48	6,808	2,351	1,327	2,834	445	13,481
Other Compensation	23			10,500			598	298	137	11,556
Employee Benefits	686,564		293,256	846,714	1,316,227	447,226	1,786,306	995,052	1,248,181	7,619,526
Personal Services-Other	3,352							(10,502)		(7,150)
Total	<u>2,923,306</u>		<u>1,276,476</u>	<u>3,513,916</u>	<u>5,447,834</u>	<u>1,958,473</u>	<u>7,503,229</u>	<u>4,297,646</u>	<u>5,515,525</u>	<u>32,436,405</u>
Operating Expenses										
Other Services	3,316,214	\$ 412,919	494,012	710,116	93,984	5,325,137	1,427,339	598,055	1,275,869	13,653,645
Supplies & Materials	1,289,559	169,726	378,675	296,497	375,639	405,828	1,082,782	626,292	783,865	5,408,863
Communications	412,057	347	128,859	133,490	172,284	78,076	146,001	109,762	174,733	1,355,609
Travel	51,175	14,960	124,027	148,114	636,468	396,533	765,412	406,520	716,834	3,260,043
Rent	221,873	103,601	19,679	127,556	52,198	150,696	155,413	50,642	725,214	1,606,872
Utilities	10,617	7,510	13,147	162,929	5,913	20,269	185,041	172,450	24,751	602,627
Repair & Maintenance	431,448	70,858	11,645	130,620	53,665	223,893	907,346	936,668	120,030	2,886,173
Other Expenses	1,378,253	342	117,944	64,684	80,910	439,585	109,858	130,656	111,598	2,433,830
Goods Purchased For Resale	71,919		5,131				13	71,282		148,345
Total	<u>7,183,115</u>	<u>780,263</u>	<u>1,293,119</u>	<u>1,774,006</u>	<u>1,471,061</u>	<u>7,040,017</u>	<u>4,779,205</u>	<u>3,102,327</u>	<u>3,932,894</u>	<u>31,356,007</u>
Equipment & Intangible Assets										
Equipment	221,414			213,507	50,820	17,819	408,057	70,592	26,003	1,008,212
Livestock							461			461
Intangible Assets	23,900									23,900
Total	<u>245,314</u>			<u>213,507</u>	<u>50,820</u>	<u>17,819</u>	<u>408,518</u>	<u>70,592</u>	<u>26,003</u>	<u>1,032,573</u>
Capital Outlay										
Land & Interest In Land		5,790,195								5,790,195
Buildings		307,037								307,037
Other Improvements		4,388,892					5,147			4,394,039
Capital Leases-Cap Outlay-Nb		6,500								6,500
Total		<u>10,492,624</u>					<u>5,147</u>			<u>10,497,771</u>
Grants										
From State Sources		1,150,843	170,744	69,389			30,000	355,426	161,420	1,937,822
From Federal Sources					5,400				16,219	21,619
Total		<u>1,150,843</u>	<u>170,744</u>	<u>69,389</u>	<u>5,400</u>		<u>30,000</u>	<u>355,426</u>	<u>177,639</u>	<u>1,959,441</u>
Benefits & Claims										
From State Sources						17,110				17,110
Total						<u>17,110</u>				<u>17,110</u>
Transfers										
Accounting Entity Transfers	3,249,604			241,875				265,247		3,756,726
Total	<u>3,249,604</u>			<u>241,875</u>				<u>265,247</u>		<u>3,756,726</u>
Total Expenditures & Transfers-Out	\$ <u>13,601,339</u>	\$ <u>12,423,730</u>	\$ <u>2,740,339</u>	\$ <u>5,812,693</u>	\$ <u>6,975,115</u>	\$ <u>9,033,419</u>	\$ <u>12,726,099</u>	\$ <u>8,091,238</u>	\$ <u>9,652,061</u>	\$ <u>81,056,033</u>
EXPENDITURES & TRANSFERS-OUT BY FUND										
State Special Revenue Fund	\$ 7,646,965	\$ 5,464,660	\$ 2,066,955	\$ 3,931,573	\$ 6,634,592	\$ 8,039,513	\$ 5,194,341	\$ 7,305,516	\$ 4,376,082	\$ 50,660,197
Federal Special Revenue Fund	1,824,925	6,959,070	673,384	1,881,120	340,523	747,520	7,531,758	414,410	5,275,979	25,648,689
Enterprise Fund								62,104		62,104
Internal Service Fund	2,511,560					246,386		309,208		3,067,154
Permanent Fund	1,617,889									1,617,889
Total Expenditures & Transfers-Out	<u>13,601,339</u>	<u>12,423,730</u>	<u>2,740,339</u>	<u>5,812,693</u>	<u>6,975,115</u>	<u>9,033,419</u>	<u>12,726,099</u>	<u>8,091,238</u>	<u>9,652,061</u>	<u>81,056,033</u>
Less: Nonbudgeted Expenditures & Transfers-Out	3,550,685	460,580	62,907	281,740	31,064	3,400	1,230,200	224,191	118,031	5,962,798
Prior Year Expenditures & Transfers-Out Adjustments	(2,328)	(2,889)	(2,446)	8,984	1,404	(2,227)	67,186	31,455	(18,578)	80,561
Actual Budgeted Expenditures & Transfers-Out	<u>10,052,982</u>	<u>11,966,039</u>	<u>2,679,878</u>	<u>5,521,969</u>	<u>6,942,647</u>	<u>9,032,246</u>	<u>11,428,713</u>	<u>7,835,592</u>	<u>9,552,608</u>	<u>75,012,674</u>
Budget Authority	10,565,279	75,594,445	2,757,456	6,644,081	7,178,825	9,402,708	16,886,476	8,253,092	12,419,467	149,701,829
Unspent Budget Authority	\$ <u>512,297</u>	\$ <u>63,628,406</u>	\$ <u>77,578</u>	\$ <u>1,122,112</u>	\$ <u>236,178</u>	\$ <u>370,462</u>	\$ <u>5,457,763</u>	\$ <u>417,500</u>	\$ <u>2,866,859</u>	\$ <u>74,689,155</u>
UNSPENT BUDGET AUTHORITY BY FUND										
State Special Revenue Fund	\$ 319,120	\$ 41,909,488	\$ 7,859	\$ 75,154	\$ 165,496	\$ 268,463	\$ 814,328	\$ 288,469	\$ 418,777	\$ 44,267,154
Federal Special Revenue Fund	185,871	21,718,918	69,719	1,046,958	70,682	57,350	4,643,435	102,079	2,448,082	30,343,094
Enterprise Fund								3,739		3,739
Internal Service Fund	7,306					44,649		23,213		75,168
Unspent Budget Authority	\$ <u>512,297</u>	\$ <u>63,628,406</u>	\$ <u>77,578</u>	\$ <u>1,122,112</u>	\$ <u>236,178</u>	\$ <u>370,462</u>	\$ <u>5,457,763</u>	\$ <u>417,500</u>	\$ <u>2,866,859</u>	\$ <u>74,689,155</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Fish, Wildlife and Parks for each of the fiscal years ended June 30, 2005, and 2004. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

The department did not analyze its federal special revenue fund revenues, expenditures, and fund balances during fiscal years 2003-04 and 2004-05 to determine adjustments necessary for proper revenue recognition. As a result, the following misstatements occurred in the federal special revenue fund on the Schedules of Changes in Fund Balances & Property Held in Trust and the Schedules of Total Revenues & Transfers-In:

<u>Fiscal Year 2003-04</u>	<u>Over (Under) Statement</u>
Direct Entries to Fund Balance	\$ 361,986
Federal (Budgeted) Revenue	1,307,221
Fund Balance, June 30, 2004	1,669,207
 <u>Fiscal Year 2004-05</u>	
Fund Balance, July 1, 2004	1,669,207
Federal (Budgeted) Revenue	(67,541)
Fund Balance, June 30, 2005	1,601,666

The department did not properly record a federal reimbursement received during fiscal year 2004-05. The error caused federal special revenue fund budgeted revenues and budgeted expenditures on the Schedule of Changes in Fund Balances & Property Held in Trust for fiscal year 2004-05 to be understated by \$3,289,000. Federal revenue on the fiscal year 2004-05 Schedule of Total Revenues & Transfers-In is understated by \$3,289,000. Land & Interest in Land expenditures in the Capital Outlay program on the fiscal year 2004-05 Schedule of Total Expenditures & Transfers-Out are also understated by \$3,289,000.

In our opinion, except for the effects of the matters discussed in the preceeding two paragraphs, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Fish, Wildlife and Parks for each of the fiscal years ended June 30, 2005, and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 13, 2005

Montana Department of Fish, Wildlife and Parks

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2005

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State and Federal Special Revenue, Capital Projects, and Permanent Funds). In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are

Notes to the Financial Schedules

prepared from the transactions posted to the state's accounting system without adjustment.

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Department state special revenue funds include private grants, donations, revenue from licenses and permits, and mitigation funds for wildlife and fisheries.

Federal Special Revenue Fund - to account for proceeds of specific federal sources that are legally restricted to aid in fish and wildlife restoration, parks development, boating safety, education and regulation, and other federal programs.

Capital Projects Fund - to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for projects administered by the Department of Administration's Architecture & Engineering Division.

Permanent Fund – to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund to record revenue from the sale or lease of department lands and the department's share of the state coal severance tax. Revenue earned from the investment of the trust fund money is transferred to the state special revenue fund for expenditure.

Proprietary Fund Category

Internal Service Fund - to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other

Notes to the Financial Schedules

governmental entities on a cost-reimbursement basis.

Department internal service funds include duplicating services, department-owned vehicles and aircraft, warehouse inventory items, and grounds maintenance for the capitol complex area. The grounds maintenance fund was transferred to the Department of Administration, effective July 1, 2005.

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The department's enterprise fund is the Visitor's Services Fund. This fund accounts for obtaining and selling educational, commemorative and interpretive merchandise at various sites throughout the state.

Fiduciary Fund Category

Agency Fund – to account for resources held by the state in a custodial capacity. The department agency fund is primarily used as a clearing account for license drawings.

2. General Fund Balance

The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances at June 30, 2004, and June 30, 2005. These balances reflect the results of activity at the department and not the fund balance of the statewide General Fund.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, Special Revenue, Capital Projects, and Permanent Funds primarily include entries to reflect the flow of resources within individual funds shared by separate state agencies.

4. Additions and Deletions to Property Held in Trust

The agency fund is used primarily as a clearing account for the initial receipt of big game license drawing fees. After drawings are held, monies are either refunded to unsuccessful applicants or

Notes to the Financial Schedules

deposited to state special revenue funds as required by various statutes. The Additions and Deletions to Property Held in Trust on the Schedule of Changes in Fund Balances & Property Held in Trust in the Agency Fund represent all transactions posted to the Property Held in Trust account, some of which are necessary to close subsidiary detail information, but which are not cash receipt or disbursements. This closeout activity is estimated to be \$14,776,820 and \$19,789,191 for fiscal years 2003-04 and 2004-05, respectively, and is included in both the reported additions and deletions.

5. Montana Fish, Wildlife and Parks Foundation

The department has an operating agreement with the Montana Fish, Wildlife and Parks Foundation (foundation), a non-profit 501(c) (3) corporation. The foundation exists to engage in activities related to the preservation and enhancement of the natural, cultural, and recreational resources in Montana and to provide support from the private sector for the efforts of the department in these areas.

During fiscal years 2003-04 and 2004-05, a department employee, in the position of liaison to the foundation, served as executive director of the foundation. The department paid approximately \$101,624 for the salary and operating costs of this position in fiscal year 2004-05 and \$120,579 for the salary and operating costs of this position in fiscal year 2003-04. The foundation contributed \$39,865 to the department in fiscal year 2004-05 and \$48,428 to the department in fiscal year 2003-04.

Effective July 1, 2005, the full-time liaison position was eliminated and the executive director is no longer employed by the department. The department has modified its operating agreement with the foundation to reflect these changes.

6. Program 55.001

In fiscal year 2003-04, the department recorded \$11,389 of expenditures in Program 55.001 as reported on the Schedule of Total Expenditures & Transfers-Out. These expenditures were

incurred in conjunction with a prairie riparian bird survey and should have been reported within the Wildlife Division program.

**7. Capital Outlay Unspent
Budget Authority**

The Capital Outlay program had unspent budget authority of \$38.7 million at June 30, 2004, and \$60.4 million at June 30, 2005. Capital projects are approved by each Legislature through HB 5. These projects can take several years to complete and the budget authority carries over each fiscal year until the projects are finished and any remaining authority reverted. HB 5 is effective on passage and approval and the appropriation authority is recorded on the accounting records prior to the close of the fiscal year in which the Legislature meets. The unspent authority at June 30, 2005, includes approximately \$31.8 million of budget authority authorized by the 2005 Legislature

Department Response



Montana Fish, Wildlife & Parks

P. O. Box 200701
Helena, MT 59620-0701
(406) 444-3186
FAX: 406-444-4952
Ref: DO0563-05
November 22, 2005

Scott Seacat, Legislative Auditor
Legislative Audit Division
State Capital
Helena, MT 59620

RECEIVED

NOV 22 2005

LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

The Department of Fish, Wildlife & Parks (FWP) has reviewed the financial-compliance audit report issued on FWP for the two fiscal years ending June 30, 2005. FWP's response to the recommendations follows:

Recommendation #1

We recommend the department:

- A. Analyze its federal special revenue fund accounts and resolve identified errors; and
- B. Implement policies and procedures to record federal revenue in accordance with state accounting policy.

Concur

FWP will analyze its federal special revenue fund accounts and resolve identified errors and implement policies and procedures to record federal revenue in accordance with state accounting policy.

As mentioned in this report, FWP processed correcting transactions in September to correct the unrecorded transaction that occurred in July, which was also the basis for audit recommendations #2 and #3 that follow. In addition to the correction document, FWP has also included in the fiscal year end procedures a memo that identifies how to record cash receipts during the fiscal year end cut-off period.

FWP will provide additional training to its grant accountant in regard to the proper federal revenue recognition. FWP will include in its fiscal year end procedures steps that will require the grant accountant to review trial balances during the fiscal year end cut-off period to identify situations that would require additional accounting entries to properly record federal revenues.

Recommendation #2

We recommend the department improve its controls over the preparation of its Schedule of Expenditures and Federal Awards.

Concur

FWP will strive to improve its controls over the preparation of its Schedule of Expenditures and Federal Awards. FWP will require the grant accountant to maintain documentation supporting the CFDA numbers and reported amounts. FWP will also require its senior accountant to review the dollar amounts reported on the SEFA to ensure the accuracy of the information reported and that the dollar amounts have been reconciled to the accounting records prior to submission to OBPP.

Recommendation #3

We recommend the department implement controls over its federal financial reporting process.

Concur

FWP will continue to improve its controls over its federal financial reporting process. FWP will require the grant accountant to maintain supporting documentation with each financial report and that the senior accountant review and approve all financial reports prior to submission.

Recommendation #4

We recommend the department improve its controls over cash management to ensure compliance with the state's Treasury-State Agreement and other federal cash management regulations.

Concur

As of July 1, 2005, FWP's programs no longer are included in the State's CMIA agreement. Since this was also an issue with the recently completed federal audit, FWP will work with the US Fish and Wildlife agency to ensure that FWP follow federal cash management regulations.

Recommendation #5

We recommend the department implement procedures to ensure claims are paid according to contract terms.

Concur

FWP will ensure claims are paid according to proper contract procurement procedures. FWP will include in the next rewrite of its purchasing manual that the employee who signs the contract is

responsible to ensure that the terms of the contract are followed. FWP will include this as a Management Team meeting agenda item as well.

Recommendation #6

We recommend the department document its review for suspension and debarment when awarding contracts to be paid with federal funds.

Concur

FWP staff review the website list of all suspended and/or debarred contractors prior to awarding contracts. The auditors found no violations of this policy. However, FWP's purchasing staff has documented this step on their purchasing checklist.

Recommendation #7

We recommend the department provide additional training to staff in use of accounting codes and establish monitoring procedures to provide the prevention and early detection and correction of accounting errors.

Concur

FWP will include in its fiscal year end procedures a memo that identifies how to record cash receipts during the fiscal year end cut-off period and stress the importance of reviewing all unusual entries during the fiscal year end cut-off period with the senior accountant.

Recommendation #8

We recommend the department:

- A. Record land acquired through purchase and or exchange at fair value; and
- B. Ensure land values reconcile between the land unit and asset management records.

Concur

FWP will record all purchases and exchanges of land at fair value. FWP will have the land section work with the property section to ensure that all needed information is provided to the property section so that all future land acquisitions are recorded correctly.

The property section will also work with the land section to attempt to reconcile land values between the land unit and asset management records.

Recommendation #9

We recommend the department record the value of conservation easements in accordance with state accounting policy.

Concur

FWP will work with the Department of Administration, Accounting Division, to properly record the value of conservation easements. There currently is no clear accounting guidance whether or not conservation easements should be recorded as a fixed asset. The Accounting Division has requested guidance from the Governmental Accounting Standards Board and hopes to clarify this issue in the revised version of MOM Volume II Chapter 1700. Once the Accounting Division has provided guidance on this matter to state agencies, FWP will comply.

Recommendation #10

We recommend the department:

- A. Analyze the composition of its private contracts, grants, and donation deferred revenue balance and properly classify it; and
- B. Account for private contracts, grants, donations and federal restitution in accordance with state accounting policy.

Concur

FWP has already begun a complete analysis of the deferred revenue balances to determine how much has actually been earned and the necessary correcting accounting entries. FWP will also clarify with the staff proper recording of monies received.

Recommendation #11

We recommend the department implement policies and procedures that will provide assurance the off-line licenses are properly safeguarded.

Concur

FWP will implement policies and procedures that will provide assurance the off-line licenses are properly safeguarded. Providers will be required to return all off-line license forms and the licensing staff will track all off lines issues back to FWP's automated licensing system.

Recommendation #12

We recommend the department evaluate its internal service fund operations and adjust rates accordingly to ensure fees are commensurate with costs as required by state law.

Concur

FWP will evaluate its internal service fund operations and attempt to adjust rates to ensure fees are commensurate with cost. If necessary, the existing rates will be reduced to ensure fees are commensurate with costs.

Recommendation #13

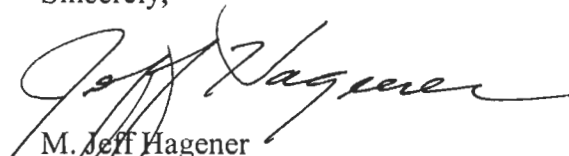
We recommend the department adopt rules to establish a voluntary board or boards for addressing disability determination disputes as required by state law.

Concur

In order for a hunter to be certified as disabled, they need to provide FWP with a statement from a physician that they have met the circumstances defined in Section 87-2-803, MCA. FWP has never challenged a physician's determination. However, since state statute requires a voluntary board to rule on disputes, FWP will establish one.

FWP appreciates the opportunity to respond to these recommendations, and the professional manner in which the audit was conducted.

Sincerely,



M. Jeff Hagener
Director